McGraw-Edison Company

Annual Report 1970

Consumer

Appliances

Toastmaster

Speed Queen

Manning-Bowman

Ingraham

Thomas A. Edison

Village Blacksmith

Industrial

Products

Buss

Halo

Voicewriter

Fusetron

One-Hour Martinizing

Utility

Equipment

Kyle Recloser

Auto Booster

TherMEcel

RHE Breakers

McGraw-Edison Company and Subsidiaries – 1970

Sales reached a record high of $631,079,000. Earnings were $2.18 per share.

Fourth-quarter sales were $159,007,000. Earnings were $7,426,000, equal to 54 cents per share.

Sales and earnings of Consumer Products Divisions, although showing only slight improvement over 1969, still reached record high levels.

Power Systems Division registered very strong upward momentum in 1970, showing a good sales gain and substantial earnings improvement over 1969.

Cutbacks in capital spending and government orders had an adverse effect on our Industrial Products Divisions, where both sales and earnings declined.

American Laundry Machinery Industries business continues to be depressed because of the falloff in demand for heavy commercial laundry equipment. Thomas A. Edison Industries, as a group, suffered setbacks primarily caused by reduced capital spending, reduced government spending and a depressed aircraft industry.

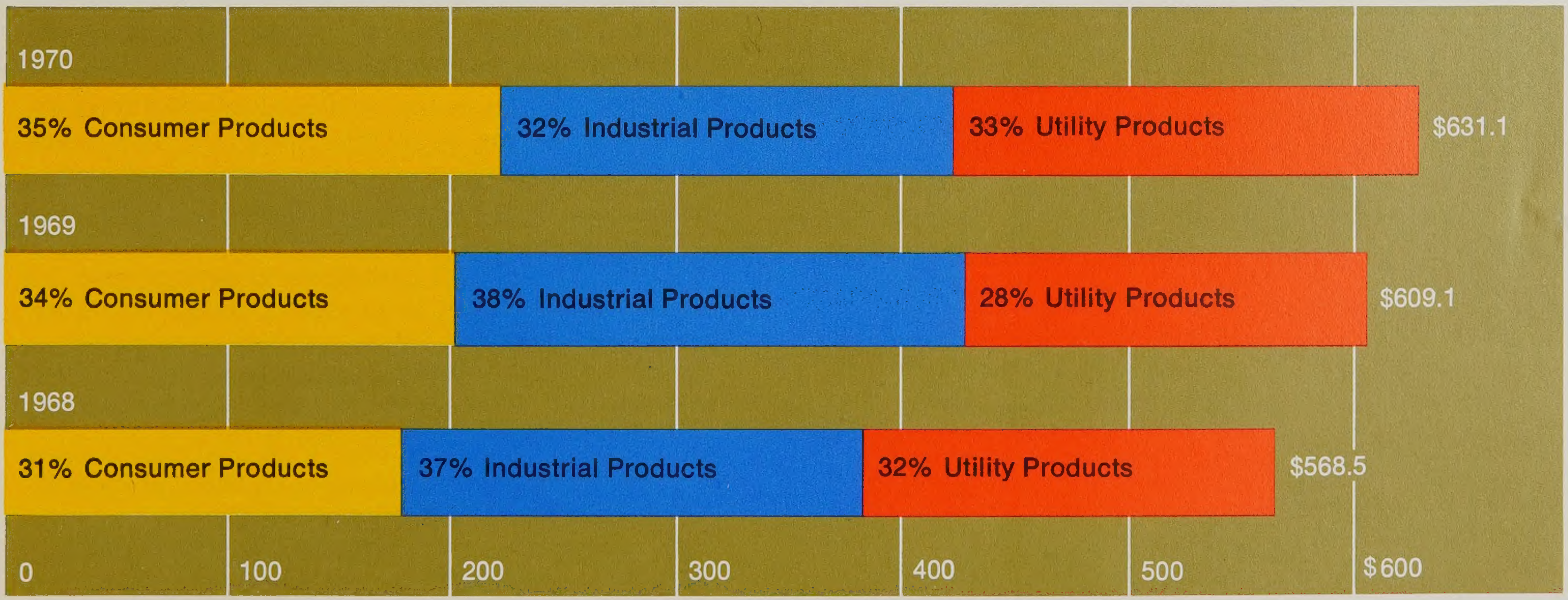
Two Consumer Products Divisions and one Industrial Products Division had the best years in their history and the executives of those divisions earned additional compensation under the new Management Incentive Compensation Plan, which became effective January 1, 1970.

A new corporate Finance Committee was appointed to advise management in all areas of corporate finance.

Effective January 1, 1971, Thomas A. Edison Industries was dissolved and four new divisions were formed.

Sales by Product Lines*

Dollar figures in millions



*To the extent practicable the foregoing chart reflects classification of our sales by product lines rather than by divisions. For this reason products sold by our Consumer Products Divisions, of an industrial nature, are included in industrial sales and products of a consumer nature which are sold by our Industrial Products Divisions are included in consumer sales. Other minor reclassifications have also been made.

To McGraw-Edison Company Shareholders:

Raymond H. Giesecke
President

As most everyone is aware, the year 1970, for business generally, was a depressed one. The results at McGraw-Edison Company, as detailed elsewhere in this report, were no exception. But there is still a bright side to 1970, and we believe the year will prove to have been a significant one for us.

First of all, our consumer goods divisions showed a slight gain in both sales and profits to establish another record high year. Secondly, our utility equipment business showed a good gain in sales and a better one in profits compared to 1969. The reduction in earnings reflects, primarily, adverse developments within the Industrial Products Divisions.

Factors which had the most significant impact on our lower earnings were:

1. The trucking strike, bankruptcies such as Penn Central and the unusually high price of copper throughout most of the year, which, together, we estimate to have cost us in excess of 25 cents per share.

2. A cutback in government orders, so severe that it had its depressing effect at our Instrument and Ingraham divisions, even though government business makes up only a small part of our total.

3. The prolonged downturn in the economy generally along with, paradoxically, sharply increasing costs for all materials and services that simply outpaced compensatory price increases.

4. Costs of plant closings and reorganization of some of our divisions, as set forth below, and unforeseen production problems on a new dictating machine.

We believe 1970 will prove to have been significant because it can best be described as a year of change. It was a year in which a maximum of management effort was directed to those areas and divisions of our company which have not been achieving anywhere near their profit potential. This is a problem management is determined to solve . . . and is solving. Other changes are contemplated in 1971.

Our Thomas A. Edison Industries Division, which was made up of five subdivisions plus a division headquarters, was realigned into four new divisions. Each of the new divisions will now report directly to our corporate headquarters in Elgin, Illinois. These changes combined two compatible product groups and manufacturing facilities, eliminated

overhead and will also release some capital. When fully implemented, we believe these steps will greatly increase the efficiency of these operations and enhance their profit picture. A modern new facility to house two of these divisions is now under construction.

At our American Laundry Machinery Industries, we also consolidated some operations by closing a plant and foundry in Rochester, New York, and moving part of the facility to existing plants in Cincinnati, Ohio, and Salt Lake City, Utah. This action, with its accompanying reduction in overhead, was dictated because the growing use of permanent press materials has adversely affected certain types of heavy laundry equipment manufactured in Rochester and Salt Lake City. In an attempt to capitalize on the growing durable press market, new machinery and a new process for imparting permanent press qualities to garments containing cotton, called AMERISET, were recently introduced. The reduced overhead, along with the new developments, could strengthen the profit contribution of this operation over the next few years.

The arrangements referred to in our 1969 report among McGraw-Edison Company, Prentice-Hall, Inc., and Responsive Environments Corporation for the manufacturing and marketing of very sophisticated educational devices we developed . . . the Talking Typewriter, Talking Page and Voice Mirror . . . have been successfully consummated and we are optimistic about the future earnings potential of this business.

In Canada, where we had a good year in both sales and earnings, we recently acquired Fairgrieve and Son, Limited, a Toronto-based manufacturer of home laundry appliances. This acquisition, among other things, has provided us with much-needed facilities for porcelain enameling, painting and assembly for expanding our production of Simplicity and Speed Queen washers and dryers for a growing Canadian market.

Another change in April, 1970, was the voluntary retirement of Mr. Alfred Bersted from the responsibilities of chairman and chief executive officer, posts he had held since 1967, and the naming of your president as chief executive. Mr. Bersted's exemplary dedication to our company, his strong and inspired personal leadership and his exceptionally keen business judgment have been major factors in the profitable growth of McGraw-Edison Company, and his many contributions will continue to be felt for years to come. He has been a director of the company since 1949 and was president from 1960 to 1967. He continues as a director and as chairman of the executive committee.

In November, 1970, by action of the Board of Directors, retirement at age 65 was made mandatory except, at the discretion of the president, in extremely unusual cases.

Your company has always maintained a strong liquid financial condition with very modest term indebtedness. The effect of growth and inflation, however, has resulted in a consistent use of bank credit. With a look to the future, your management is studying the possibility of long-term borrowings to take fullest advantage of current trends in interest rates.

As you may be aware, 10-year projections show the growth rate for the electrical equipment industry to be substantially greater than that contemplated for the economy generally. This holds good promise for us because the real strength of our company lies in the diversity of our operations . . . with excellent balance among consumer products, utility equipment and industrial goods. As one of only three full-line companies in the U. S. with the capability of serving all three of these major electrical marketing areas, we're confident that the steps taken during the past year, along with those contemplated, will better equip us to accelerate our own profitable growth in a growth industry.

On a near-term basis, however, because of the many uncertainties still facing the economy, we are not optimistic for the first quarter of 1971. We do look forward, though, to important earnings improvement by year-end.

Raymond H Giesecke

Raymond H. Giesecke
President

March 12, 1971

Consumer

Appliances

All things considered, our Consumer Products Divisions did very well in a difficult year. Sales and earnings reached an all-time high despite the trucking strike early in the year and the generally sharp downturn in consumer spending during the third and fourth quarters.

The Toastmaster Division, Bersted Division and Manning-Bowman Division, manufacturers of small kitchen appliances, power tools, heaters and fans, managed to show slight sales gains while earnings for the year remained flat. This is the area of our business where the trucking strike had its greatest effect. Were it not for that, these divisions would most likely have achieved a new high in earnings. So far as we can see now, 1971 holds good promise for these divisions.

The Albion Division, which manufactures air conditioners, humidifiers and dehumidifiers, had an excellent year with both sales and earnings reaching new highs. Because of an unusually cool summer along the Eastern seaboard, carry-over stocks of air conditioners are much heavier than last year. However, given reasonably hot temperatures this summer, this should not prove to be an excessive burden with the demand for air conditioners and humidifiers still growing. We also anticipate some new business from a promising new Electronic Air Cleaner introduced early this year.

In 1970, International Metal Products Division also had an excellent year. Record sales and earnings were achieved in the sale of evaporative coolers for homes and mobile homes. These products, while indigenous to the South and Southwest sections of the country, still hold some growth prospects and the 1971 outlook for this division is very good.

At Speed Queen, makers of household automatic washers and dryers and commercial coin-op washers and dryers, slight gains were registered in sales, but earnings turned down. This earnings result can also be attributed, in great part, to the trucking strike which caused costly shipping problems and had its effect in delaying the introduction of new models of washers and dryers until past

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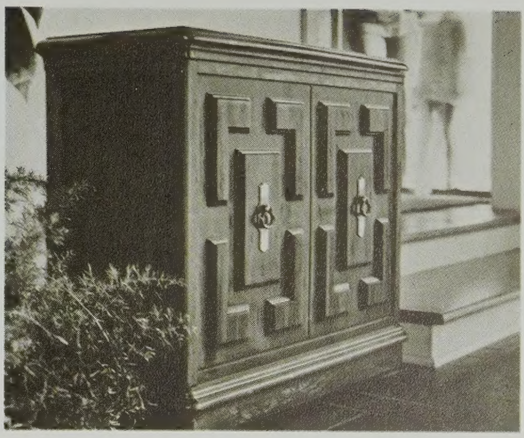

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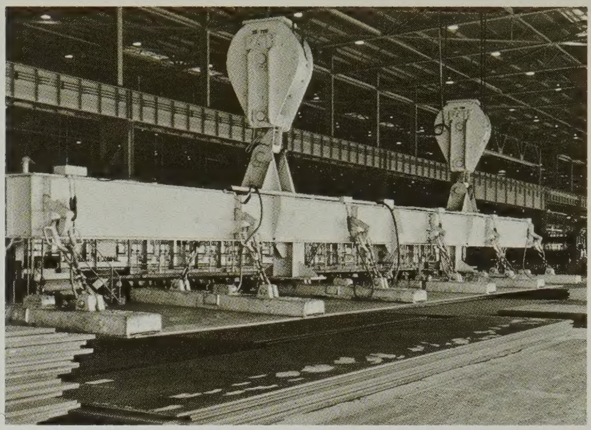
mid-year. In the coming year, the heretofore excellent coin-op business is expected to be relatively flat. But the newly styled line of household washers and dryers, plus a growing market for a new washer-dryer unit, called Supertwin, designed to take advantage of the trend to more apartment and mobile home living, indicates a distinct sales and earnings improvement for Speed Queen in 1971.

The Laurinburg Division manufactures a line of decorator clocks, watches and a variety of automatic household timers. Started in January, 1970, following a split-off from the Ingraham Industries Division, it is the newest of our consumer products group. With several reorganization problems, some product changes and a new marketing thrust, Laurinburg still made considerable progress although showing a small loss in 1970. The outlook now, however, is that this division can become an earnings contributor in 1971.

Village Blacksmith, makers of both hand and electric lawn and garden tools, plus various types of insect foggers, is the smallest of our consumer goods divisions. Because of certain product re-design costs, plus the costs of absorbing Northern Industries, a manufacturer of foggers which was acquired at the beginning of the year, a loss was incurred despite a slight sales gain over 1969. At this time, the outlook is for a profit in 1971.

1. New Speed Queen top-of-the-line washer and dryer feature rust-proof, chip-proof stainless steel tubs and drums.
2. Toastmaster and other McGraw-Edison Company divisions produce a wide variety of quality small appliances for the home.
3. New console model electronic air cleaner produced by Albion Division can remove up to 93 per cent of particles in the home atmosphere.

Industrial Products



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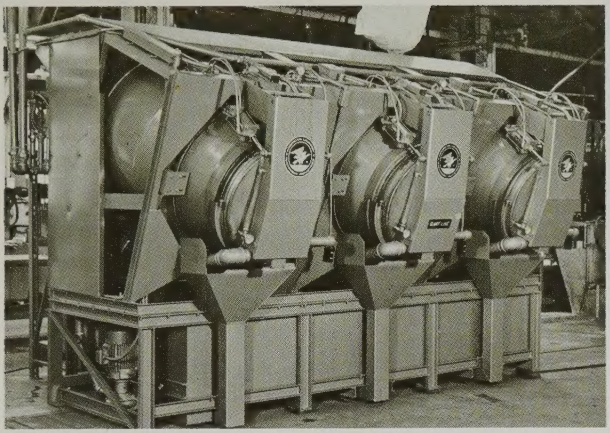
Because of certain uncontrollable economic forces which came into play during 1970, it is among this group of divisions where the downturn in business, a severe cutback in government orders and a lessening of certain capital expenditures by industry in general had its greatest impact on sales and earnings.

American Laundry Machinery Industries, manufacturer of commercial laundry and dry cleaning equipment, had another depressed year in 1970. This was because of the continuing falloff in demand for certain types of heavy laundry equipment brought about by the growing popularity of permanent press fabrics and by the tight money market which delayed a good deal of capital spending in the industry. Also contributing were some heavy, nonrecurring costs brought about by the consolidation of manufacturing facilities detailed elsewhere in this report. Although this consolidation, plus the new AMERISET process and new machinery recently introduced, should have some positive benefits in the year ahead, significant profitability growth for this division in the immediate future is not too likely, primarily because of the declining market being served.

The Bussmann Manufacturing Division, makers of famous Buss fuses and fuse holders, established another record high in both sales and earnings. The outlook for continued growth within this division during 1971 and over the long term remains excellent.

The Fibre Products Division, which manufactures underground conduit pipe and drainage pipe, did not have a good year in 1970. While sales, compared to 1969, remained relatively flat, earnings were depressed. The flat sales and lower earnings can be attributed to three basic factors: the falloff in residential housing starts; a production problem in the Mt. Holly, New Jersey, plant; and the sharp rise in the cost of a basic material which increased 58 per cent during the year. The production problem is now being worked out, compensatory price increases have been made and the projected pick-up in residential housing starts should help this division materially.

At Food Equipment Division, makers of electric commercial food service equipment for hotels, restaurants, institutions and Naval and merchant marine ships, the reduction in both capital spending and Federal spending, along with the effects of the trucking strike early in the year, combined to lower both sales and earnings. However, sales of small equipment, including microwave ovens, designed for the fast-food restaurant market, did show an increase. An improving



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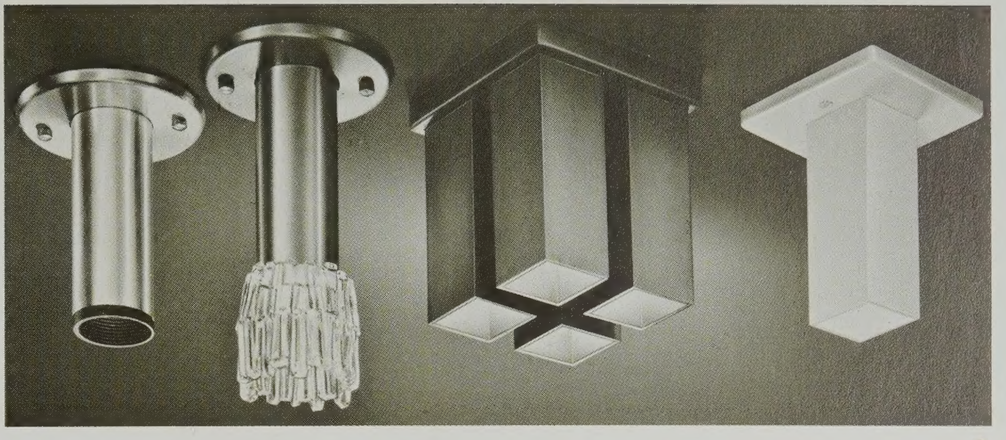

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economic climate should have a favorable effect on this part of our business.

The Halo Lighting Division, manufacturers of decorative and functional lighting equipment, also felt repercussions resulting from fewer housing starts and the prolonged trucking strike. While sales remained relatively even, earnings turned down. With a general pickup in the economy, and with some new products and aggressive marketing programs introduced late in 1970, we look for this division to show a sharp upturn in both sales and profits in 1971.

Ingraham Industries, makers of timers, gear trains and military arming devices, had a very depressed year in 1970, primarily because of the severe cutback in Federal spending. However, with several large new government contracts received late in 1970, and with a general pickup in the economy in 1971, we look for an earnings improvement at this division.

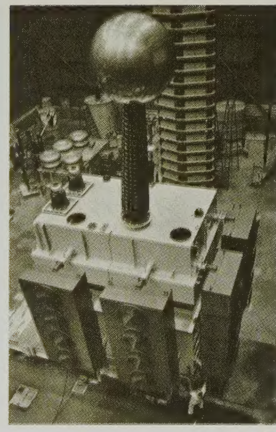
Another of our divisions which felt the pinch of inflation and the cutback in capital spending was Lectrodryer, makers of industrial atmospheric dryers. With some new and improved products coming on stream, and given a better overall economic climate in 1971, Lectrodryer should also show improvement.

The National Electric Coil Division, which repairs and manufactures coils and components for heavy electrical rotating equipment, and manufactures lifting and other types of magnets, improved in sales over a year ago. Because of rapidly increasing costs and a wildcat strike of several weeks duration early in the year, earnings were flat. With some recent organizational changes and other improvements behind us, we look for better earnings in 1971.

Thomas A. Edison Industries, makers of industrial and aircraft instrumentation, electronic components and test equipment, primary batteries and office dictating equipment, was quite adversely affected in 1970 by the depressed aircraft industry and the reduction in capital spending by industry generally. Effective January 1 of this year, and detailed elsewhere in this report, important organizational changes were made in this area of the company. Given an upturn in the economy in 1971, these changes should help some of this business to show modest improvements this year and more improvement in the years ahead. It now appears, however, that the aircraft instrument business and the office dictating equipment business will continue to show unsatisfactory results in 1971.

1. Lifting capacity of National Electric Coil Division's new Platemaster lifting magnets has been increased up to 60 tons.
2. American Laundry Machinery Industries' 200-pound capacity Slant/Line commercial washing machines are permanently tilted to speed unloading by gravity.
3. Little Lights produced by Halo Lighting Division are a versatile line of recessed and surface units suitable for indoor or outdoor use.

Utility Equipment



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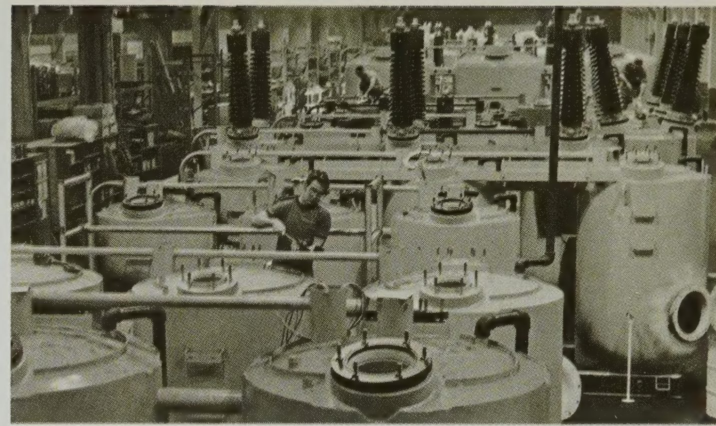

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This division of our company, McGraw-Edison Power Systems, showed a very strong upward momentum in 1970 and ended the year with a good sales gain and substantial earnings improvement over 1969. Contributing to this upward thrust were the good backlogs we had at the beginning of the year, the continued high demand for most products and improved production efficiencies resulting from an extensive plant modernization and expansion which has been underway for the past three years.

As we enter 1971, the labor climate at Power Systems appears good, backlogs are again high and costs of some materials, especially copper, seem to be stabilizing following an alarming inflationary spiral. These factors, coupled with the increasing demand for transmission and distribution equipment, the lowering of interest rates and the projected increases in capital expenditures by utilities during the coming year, hold great promise for Power Systems. As a result, we anticipate continuing gains in both sales and profits for 1971 . . . and for the foreseeable future.

A prolonged strike in the steel or copper industries, however, could have a dampening effect on this upward momentum. But at this point, the outlook for our Power Systems Division over both the intermediate and long term is extremely bright.

Refinements in our ARMETER system, the automatic remote meter reading process that reads and bills electric, gas and water meters over existing telephone lines, continue to be made and successfully field-tested in various sections of the country under all types of climate variations.

We have, however, run into unforseen delays in getting ARMETER equipment on the market. These, to a large extent, have to do with attachments to telephone lines about which telephone companies are extremely cautious. Tariff problems have also been a factor.

1. Power Systems Division's high-voltage test center contributes to power transformer reliability.
2. Modernization of the Canonsburg plant has increased production capacity of switchgear and power transformers.

International Operations

While McGraw-Edison Company does not have extensive international business at this time, we do have some very successful and growing operations beyond our borders. While our export volume, exclusive of Canada and Mexico, is only in the $15,000,000 to $20,000,000 range, mostly sales of utility equipment and commercial laundry products, opportunities do exist for expanding sales in this area and we are devoting new efforts to take advantage of existing markets.

In Canada, we have McGraw-Edison of Canada Limited which, like the parent company, serves all three of the major electrical equipment markets . . . consumer, industrial and utility. Sales and earnings contributions from this operation were very good in 1970 and we have every reason to expect continued good growth in 1971 and beyond, given a reasonably good economic climate. At the present time, we are in the process of further strengthening this operation through some reorganization of management and plant facilities. It is our objective, if possible, to consolidate this operation into three major divisions from the eight which were in existence in all or part of 1970. Some of those changes have already been accomplished.

In Monterrey, Mexico, we have International Metal Products de Mexico, S. A., manufacturing and marketing a line of evaporative air coolers, fans and heaters. This, too, has been a successful and growing operation and for the first time, we are including the Mexican results in our consolidated statements. We anticipate continued profitable growth from this operation.

In 1968, we established a new McGraw-Edison International Division for the purpose of marketing and, where necessary and feasible, negotiating license arrangements with foreign manufacturers for the sale of consumer products overseas. Some progress, with help from our Pan American Corporation, has been made in this area and the outlook for making further penetrations in foreign markets now appears to be very good.

In the summer of 1970, we also established Edison Halo Limited in London, England, to market, primarily, our functional lighting fixtures overseas. Initial reaction has been good and during the next 12 months, we expect to start producing some of these products in England. We are also instituting a licensing program for these products on the European continent. One agreement has already been reached with a French company and we expect to license additional European companies during the year.

The Power Systems Division has recently taken steps to further penetrate the growing Latin American market by consummating a long-range license agreement on power and distribution transformers with a major Mexican electrical manufacturer . . . the government-owned Commission Federal de Electricidad.

Two other divisions, National Electric Coil and Food Equipment, also sell some equipment overseas and are making efforts to increase their volume.

Consumer Products Divisions

Albion Division

Main Office:	Albion, Michigan
President:	Mathew F. Beisber
Products:	Air conditioners, electronic air cleaners, humidifiers, dehumidifiers, electric heating
Brand Names:	Thomas A. Edison, Coolerator, Tropic-Aire

Bersted and Manning-Bowman Divisions

Main Office:	Boonville, Missouri
President:	John R. McDermott
Products:	Small electric appliances, power tools, fans, heaters
Brand Names:	Manning-Bowman, Power House, Fostoria, Everhot

International Metal Products Division

Main Office:	Phoenix, Arizona
President:	Verner A. Rydberg
Products:	Evaporative coolers, mobile home coolers, make-up air units, gas heaters
Brand Names:	TravelAire, Arctic Circle, Wright

Laurinburg Division

Main Office:	Laurinburg, North Carolina
General Manager:	Ralph Ronalter
Products:	Decorator clocks, automatic household timers
Brand Name:	Ingraham

Speed Queen Division

Main Office:	Ripon, Wisconsin
President:	Robert M. Cornwall
Products:	Home automatic washers and dryers, coin-operated laundry and dry cleaning equipment
Brand Name:	Speed Queen

Toastmaster Division

Main Office:	Elgin, Illinois
President:	Scott C. Rexinger
Products:	Small electric appliances, power tools, fans, heaters
Brand Name:	Toastmaster

Village Blacksmith

Main Office:	Watertown, Wisconsin
President:	Henry R. Winogrond
Products:	Lawn and garden hand tools, electric lawn edgers and hedge trimmers
Brand Name:	Village Blacksmith

Industrial Products Divisions

American Laundry Machinery Industries

Main Office:	Cincinnati, Ohio
President:	George L. Strike
Products:	Commercial laundry and dry cleaning equipment, permanent press processing systems and equipment
Brand Names:	One-Hour Martinizing, Ameriset, Loadmaster

Bussmann Manufacturing Division

Main Office:	St. Louis, Missouri
President:	Joseph A. Bussmann, Jr.
Products:	All types of fuses, fuse receptacles
Brand Names:	Buss, Fusetron

Edison Battery Division

Main Office:	Bloomfield, New Jersey
President:	M. I. Rayner
Products:	Primary batteries, nickel cadmium batteries, solid state voltage regulators, components
Brand Names:	Carbonaire, Edison

Edison Electronics Division

Main Office:	Manchester, New Hampshire
President:	Edward L. Allman
Products:	Rotary switches, attenuators, precision electronic equipment and components
Brand Names:	Daven, Microvolt

Edison Voicewriter Division

Main Office:	West Orange, New Jersey
President:	Robert E. Murray
Products:	Office dictating equipment and systems
Brand Names:	Voicewriter, Edisonic

Food Equipment Division

Main Office:	Algonquin, Illinois
President:	Fred E. Wiley
Products:	Commercial food service equipment
Brand Name:	Toastmaster

Halo Lighting Division

Main Office:	Rosemont, Illinois
President:	Robert S. Fremont
Products:	Decorative and recessed lighting fixtures for home and industry
Brand Names:	Halo, Lite Trend, Power-Trac, Little Lights

Ingraham Industries
Main Office: Bristol, Connecticut
President: Wesley A. Songer
Products: Appliance timers, gear trains, military arming devices
Brand Name: Ingraham

Lectrodryer Division
Main Office: Carnegie, Pennsylvania
President: Claude W. Elliott
Products: Atmospheric dryers, industrial dehumidifiers
Brand Names: Lectrodryer, Lectrofilter

National Electric Coil Division
Main Office: Columbus, Ohio
General Manager: Herbert M. Appleton
Products: Coils and components for, and repair of, heavy electrical equipment, industrial lifting magnets
Brand Names: Mica-Glas, Scrap Master, Neccobond

Thomas A. Edison Instrument Division
Main Office: West Orange, New Jersey
President: William H. Balentine
Products: Aircraft and industrial instrumentation
Brand Names: Omniguard, Omnicorder, Edison

Utility Equipment Division

McGraw-Edison Power Systems Division
Main Office: Canonsburg, Pennsylvania
President: Fred H. Plank
Products: Power and distribution transformers, capacitors, reclosers, oil circuit breakers, power switching equipment, switchgear, pole line hardware, outdoor lighting, lightning arresters
Brand Names: Auto Booster, Kyle Recloser, TherMEcel, ARMETER, RHE Breakers

Subsidiaries

EAC Credit Corporation
Elgin, Illinois; Cincinnati, Ohio;
Los Angeles, California
President: Raymond H. Giesecke

Edison Halo Limited
London, England
Managing Director: Michael Sillett

International Metal Products de Mexico, S. A.
Monterrey, Mexico
President: John B. Murray

McGraw-Edison of Canada Limited
Toronto, Ontario, Canada
President: Robert J. Collins-Wright

McGraw-Edison Pan American Corporation
Elgin, Illinois
President: Raymond H. Giesecke

Management Changes and Other Matters of Interest

Following are some things which have taken place during 1970 that should be of interest to our shareholders.

As previously stated, Mr. Alfred Bersted, a director since 1949, president from 1960 to 1967 and board chairman from 1967 to 1970, stepped down as chairman and chief executive officer to become chairman of the executive committee. Mr. Raymond H. Giesecke, president since 1967, was then appointed chief executive officer. Mr. Robert Martin, treasurer of the company, was also named a vice president.

Mr. Boyd J. Simmons, a director of the company and formerly senior vice president of the Continental Illinois National Bank and Trust Company of Chicago, was made chairman of a new finance committee consisting of President Giesecke, Vice President and Treasurer Martin, and Directors John A. Logan and William P. Howlett. This committee advises management in all areas of corporate finance.

As a result of the reorganization of Thomas A. Edison Industries, referred to in the president's letter, four new divisions were formed as follows:

Edison Voicewriter Division, Robert E. Murray, president.

Edison Battery Division, M. I. Rayner, president.

Thomas A. Edison Instrument Division, W. H. Balentine, president.

Edison Electronics Division, Edward L. Allman, president. *(This division combined the old Daven and Measurements Divisions).*

Each of these new divisions now reports to corporate headquarters in Elgin, Illinois.

In January, 1971, Mr. Herbert M. Appleton was named general manager of the National Electric Coil Division, succeeding Mr. Nathan J. Greene, who retired from active management but remains with the company in a consulting capacity.

Mr. Rudolph M. Swanson, assistant secretary and assistant treasurer, and a valued officer of the company for many years, retired on January 31, 1971.

An important management activity in 1970 was regular appearances before security analyst groups to tell the McGraw-Edison Company story and to answer questions concerning our company. We made five such appearances during the year and four have been scheduled for 1971. This is being done primarily to make our company better understood in the financial community.

We are also working on a new corporate symbol and logotype which we plan to introduce in 1971. This program is designed to give us a stronger corporate identity which will help to make our company better known to all the publics with whom we come in daily contact. We are striving to develop a simple, visual symbol that will quickly relate all divisions to each other and to McGraw-Edison Company.

During 1970, we completed a very successful program of training 109 unemployed members of minority groups in conjunction with the U. S. Department of Labor. A similar program is now underway in this current fiscal year.

As a corporate citizen, we are also aware of our community responsibility on the subject of ecology. Although there are no major problems in this area, we are taking steps to overcome those which do exist.

Under the Management Compensation Incentive Program, which became effective January 1, 1970, two of our consumer divisions and one industrial division had the best years in their history and the division executives earned additional compensation.

Robert W. Martin
Vice President and Treasurer

McGraw-Edison Company and Subsidiaries

Consolidated Statement of Income

For the Years Ended December 31, 1970 and 1969

	1970	1969
Income:		
Net sales	$631,079,000	$609,102,000
Net income of EAC Credit Corporation	458,000	574,000
Miscellaneous income, net	1,016,000	1,679,000
Total income	$632,553,000	$611,355,000
Deductions:		
Materials and services purchased from others	$338,776,000	$324,844,000
Wages, salaries, commissions, and employee benefit costs	222,730,000	207,345,000
Provision for depreciation (principally sum-of-the-years' digits method)	13,169,000	12,013,000
Federal, State, and Foreign taxes on income	27,858,000	34,182,000
Total deductions (Note 4)	$602,533,000	$578,384,000
Net income	$ 30,020,000	$ 32,971,000
Per Share (based on average shares outstanding)	$2.18	$2.41

Consolidated Statement of Earnings Retained for Use in the Business

For the Years Ended December 31, 1970 and 1969

	1970	1969
Balance at Beginning of Year	$214,066,000	$200,277,000
Retained earnings of previously unconsolidated subsidiaries (Note 1)	1,015,000	—
Combined Balance at Beginning of Year	$215,081,000	$200,277,000
Net income for the year	30,020,000	32,971,000
Dividends paid ($1.40 per share) in 1970 and 1969	(19,332,000)	(19,182,000)
Balance at End of Year	$225,769,000	$214,066,000

The accompanying notes to consolidated financial statements are an integral part of these statements.

McGraw-Edison Company and Subsidiaries

Consolidated Balance Sheet

December 31, 1970 and 1969

Assets	**1970**	1969
Current Assets:		
Cash and marketable securities	**$ 14,469,000**	$ 11,127,000
Receivables, less reserves ($3,790,000 in 1970 and $4,135,000 in 1969)	**$ 97,902,000**	$ 99,637,000
Inventories, at lower of cost (substantially first-in, first-out basis) or market:		
Raw materials	**$ 57,809,000**	$ 55,335,000
Work in process	**55,437,000**	50,033,000
Finished goods	**61,172,000**	53,322,000
	$174,418,000	$158,690,000
Total current assets	**$286,789,000**	$269,454,000
EAC Credit Corporation (Note 1):		
Equity in net assets	**$ 5,057,000**	$ 5,499,000
Notes receivable	**5,500,000**	5,000,000
	$ 10,557,000	$ 10,499,000
Prepaid Expenses and Other Assets	**$ 6,502,000**	$ 5,269,000
Plant and Equipment, at cost:		
Land	**$ 3,140,000**	$ 2,579,000
Buildings	**55,291,000**	52,189,000
Machinery and equipment	**130,452,000**	124,272,000
	$188,883,000	$179,040,000
Less—Accumulated depreciation	**110,440,000**	103,556,000
	$ 78,443,000	$ 75,484,000
	$382,291,000	$360,706,000

The accompanying notes to consolidated financial statements are an integral part of this statement.

Liabilities	**1970**	1969
Current Liabilities:		
Portion of long-term notes due within one year	**$ 688,000**	$ 995,000
Notes payable	**19,543,000**	8,812,000
Accounts payable	**29,038,000**	30,612,000
Accrued liabilities	**24,905,000**	25,676,000
Federal, State and Foreign taxes on income	**5,240,000**	7,826,000
Total current liabilities	**$ 79,414,000**	$ 73,921,000
Long-term Notes Payable, less current portion (Note 2)	**$ 6,358,000**	$ 6,387,000
Stockholders' Equity:		
Common stock—authorized 18,000,000 shares; $1 par value per share; outstanding 13,818,549 shares in 1970 after deducting 42,502 shares in treasury (Notes 3 and 5)	**$ 13,819,000**	$ 13,657,000
Additional paid-in capital	**56,931,000**	52,675,000
Earnings retained for use in the business	**225,769,000**	214,066,000
	$296,519,000	$280,398,000
	$382,291,000	$360,706,000

McGraw-Edison Company and Subsidiaries

Consolidated Statement of Source and Application of Funds

For the Years Ended December 31, 1970 and 1969

	1970	1969
Working capital at beginning of year	**$195,533,000**	$189,708,000
Source of Funds:		
Net income for the year	**$ 30,020,000**	$ 32,971,000
Provision for depreciation	**13,169,000**	12,013,000
Treasury shares issued in partial payment of 1969 profit sharing contribution	**4,318,000**	—
Sale of common stock under option plan	**84,000**	1,153,000
Proceeds from sale of property, plant and equipment	**881,000**	614,000
Net equity of previously unconsolidated subsidiaries (Note 1)	**1,031,000**	—
	$ 49,503,000	$ 46,751,000
Disposition of Funds:		
Dividends paid	**$ 19,332,000**	$ 19,182,000
Plant and equipment additions	**17,009,000**	16,872,000
Increase in equity in EAC Credit Corporation	**58,000**	124,000
Purchase of 95,000 shares of McGraw-Edison Company stock for treasury	**—**	3,455,000
Decrease in long-term notes payable	**29,000**	1,002,000
Increase in other assets	**1,233,000**	291,000
	$ 37,661,000	$ 40,926,000
Increase in working capital	**$ 11,842,000**	$ 5,825,000
Working capital at end of year	**$207,375,000**	$195,533,000

Consolidated Statement of Additional Paid-In Capital

For the Years Ended December 31, 1970 and 1969

	1970	1969
Balance at Beginning of Year	**$ 52,675,000**	$ 54,928,000
Proceeds in excess of par value of 4,175 shares of stock in 1970 and 45,945 in 1969 sold under stock option plans (Note 3)	**80,000**	1,107,000
Paid-in capital arising from acquisition of treasury shares in 1969 and issuing of shares in 1970 principally in satisfaction of the company's profit sharing contribution liability	**4,176,000**	(3,360,000)
Balance at End of Year	**$ 56,931,000**	$ 52,675,000

The accompanying notes to consolidated financial statements are an integral part of these statements.

EAC Credit Corporation

A wholly owned subsidiary of McGraw-Edison Company

Balance Sheet

December 31, 1970 and 1969

	1970	1969
Assets		
Cash	$ 1,856,000	$ 628,000
Installment notes receivable (due after one year: $26,223,000 in 1970 and $29,790,000 in 1969)	$ 49,515,000	$ 52,193,000
Deduct:		
Reserve for losses	(828,000)	(832,000)
Unearned finance income	(6,955,000)	(7,630,000)
Dealers' reserves	(1,946,000)	(2,046,000)
	$ 39,786,000	$ 41,685,000
Miscellaneous	$ 324,000	$ 471,000
	$ 41,966,000	$ 42,784,000
Liabilities		
Current Liabilities:		
Portion of long-term notes due within one year	$ 800,000	$ 800,000
Notes payable	28,004,000	26,433,000
Accounts payable	139,000	1,662,000
Accrued liabilities	66,000	68,000
Federal taxes on income	—	122,000
Total current liabilities	$ 29,009,000	$ 29,085,000
Long-term Liabilities:		
4.875% note payable, $800,000 due annually to 1974, less current portion	$ 2,400,000	$ 3,200,000
6% junior subordinated notes to McGraw-Edison Company, payable in 1974	5,500,000	5,000,000
	$ 7,900,000	$ 8,200,000
Stockholder's Equity:		
Capital stock	$ 3,000,000	$ 3,000,000
Additional paid-in capital (no change during 1970 or 1969)	$ 271,000	$ 271,000
Earnings retained for use in the business —		
Balance at beginning of year	$ 2,228,000	$ 2,104,000
Net income for the year (after deducting $464,000 in 1970 and $674,000 in 1969 for taxes on income)	458,000	574,000
Dividends paid to McGraw-Edison Company	(900,000)	(450,000)
Balance at end of year (Note 1)	$ 1,786,000	$ 2,228,000
Total stockholder's equity	$ 5,057,000	$ 5,499,000
	$ 41,966,000	$ 42,784,000

Notes:

(1) Under the terms of the 4.875% loan agreement, among other things, EAC Credit Corporation may not pay dividends on or acquire its own capital stock or pay interest or principal on the junior subordinated note, except to the extent of consolidated net earnings available for restricted payments (as defined). As of December 31, 1970, $200,000 of earnings retained for use in the business was not restricted under these provisions.

(2) The Company is involved in several pending legal actions, but in the opinion of management the ultimate settlements of these actions are expected to have no material effect on the balance sheet.

Notes To Consolidated Financial Statements

December 31, 1970

Note 1

In 1970, the accounts of a previously unconsolidated wholly-owned foreign subsidiary and of Northern Industries, Inc., acquired in 1970, and accounted for on a pooling-of-interests basis, have been included in the consolidated financial statements. The prior year financial statements have not been restated since the effect of such a restatement would be immaterial. Investments in EAC Credit Corporation, a wholly-owned finance subsidiary, and a 50% interest in E.R.E. Laboratory, Inc., are carried on an equity basis.

Note 2

Long-term debt represents several notes payable with interest rates ranging from 4% to 7%. Principal payments are required each year in amounts ranging from $493,000 to $697,000 during the years 1971 through 1976 and from $30,000 to $348,000 during the years 1977 through 1990. Some of the loan agreements provide restrictions with respect to working capital, payment of cash dividends, etc., which are not significant to the Company's present operations or financial position.

Note 3

Under the Company's stock option plans, 314,065 shares of stock were reserved at December 31, 1970, for issuance to key officers and employees. Options were exercised for 4,175 shares in 1970; options were cancelled due to deaths, terminations, etc., for 19,450 shares; and new options were granted for 54,175 shares. Prior to January 1, 1964, options were granted at not less than 95% of market value at date of grant and expire 10 years after date of grant. Subsequent to that date options have been granted at not less than market value at date of grant and expire 5 years after date of grant.

At December 31, 1970, options to purchase 180,171 shares of stock at an average price of $30.65 were outstanding, of which options for 98,678 shares were exercisable.

Note 4

Total deductions in the consolidated statement of income consist of the following:

	1970	1969
Cost of Sales	$473,453,000	$447,947,000
General, administrative, engineering and selling expenses	101,222,000	96,255,000
Federal, State and Foreign taxes on income	27,858,000	34,182,000
	$602,533,000	$578,384,000

Note 5

Changes in McGraw-Edison Company $1 par value, common stock during the year 1970 were as follows:

	Shares Issued	Shares in Treasury	Shares Issued And Outstanding
Balance December 31, 1969	13,856,876	200,334	13,656,542
Shares issued under stock option plans	4,175	—	4,175
Shares issued to profit sharing trust	—	(149,332)	149,332
Shares issued for the capital stock of Northern Industries, Inc.	—	(8,500)	8,500
Balance December 31, 1970	13,861,051	42,502	13,818,549

Auditors' Report

To the Stockholders and Board of Directors,
McGraw-Edison Company:

We have examined the consolidated balance sheet of McGRAW-EDISON COMPANY (a Delaware corporation) AND SUBSIDIARIES as of December 31, 1970, and the related statements of income, additional paid-in capital, earnings retained for use in the business and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have also made a similar examination of the balance sheet of EAC Credit Corporation (a Delaware corporation and a wholly owned subsidiary of McGraw-Edison Company) as of December 31, 1970. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, (1) the accompanying consolidated financial statements of McGraw-Edison Company and Subsidiaries present fairly their financial position as of December 31, 1970, and the results of their operations and source and application of funds for the year then ended, and (2) the accompanying balance sheet of EAC Credit Corporation presents fairly its financial position as of December 31, 1970, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Chicago, Illinois,
February 10, 1971.

ARTHUR ANDERSEN & CO.

10 Year Financial Summary

(all except per share figures in thousands)	Net Sales As Reported	Net Sales As Restated	Earnings Before Taxes As Reported	Earnings Before Taxes As Restated	Net Earnings As Reported	Net Earnings As Restated	Earnings Per Common Share* As Reported	Earnings Per Common Share* As Restated	Dividends Per Common Share	Book Value Per Common Share As Restated	Shares Outstanding At Year End As Restated	Average Shares Outstanding During the Year As Restated	Additions to Plant and Equipment As Restated**	Depreciation As Restated
1970	**$631,079**	**631,079**	**57,878**	**57,878**	**30,020**	**30,020**	**2.18**	**2.18**	**1.40**	**21.46**	**13,819**	**13,791**	**17,009**	**13,169**
1969	$609,102	609,102	67,153	67,153	32,971	32,971	2.41	2.41	1.40	20.53	13,657	13,699	16,872	12,013
1968	$568,548	568,548	69,009	69,009	34,026	34,026	2.47	2.47	1.40	19.62	13,706	13,780	22,898	10,486
1967	$555,642	555,642	66,418	66,418	35,613	35,613	2.59	2.59	1.25	18.68	13,771	13,749	13,962	9,995
1966	$456,840	495,365	52,735	56,221	28,070	29,892	2.14	2.18	1.20	17.35	13,728	13,716	12,332	9,134
1965	$455,282	484,860	59,875	62,503	31,926	33,548	2.45	2.46	1.05	16.34	13,697	13,653	13,945	8,871
1964	$422,153	452,081	44,485	46,371	22,338	23,603	1.73	1.75	.80	14.77	13,565	13,498	10,868	8,901
1963	$368,347	397,055	31,212	34,403	15,443	17,249	1.20	1.28	.80	14.52	13,478	13,473	10,437	8,367
1962	$349,174	380,004	34,971	37,850	16,517	18,387	1.28	1.37	.80	13.95	13,433	13,429	9,147	8,412
1961	$329,192	349,055	28,297	29,601	13,465	13,990	1.05	1.04	.70	13.33	13,424	13,418	7,012	8,424

Note:

The restated figures shown above reflect those for all major predecessor companies for which McGraw-Edison stock was issued, whether treated as acquisitions or poolings-of-interests, for all years, including those prior to the time such companies became part of McGraw-Edison Company.

Per share figures give effect to the 2-for-1 stock split in 1965.

The figures do not reflect a $10,000,000 charge and a $1,808,000 credit to retained earnings in 1964 and 1965, respectively, in connection with prior-year price adjustments.

* Earnings per common share have been restated to reflect the average number of shares outstanding during the periods.

** Additions shown are gross additions, before reflecting retirements and other adjustments.

Officers and Directors

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Alfred Bersted, *Elgin, Illinois*
Donald S. Elrod, *Pebble Beach, California*
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Controller
Rudolph M. Swanson*
Assistant Secretary and Assistant Treasurer
Leon F. Fiorentino
Assistant Controller
Dante Antonacci
Assistant Secretary

* Retired January 31, 1971

Transfer Agents

The First National Bank of Chicago
Marine Midland Grace Trust Company of New York

Registrars

Harris Trust & Savings Bank (Chicago)
The Chase Manhattan Bank (New York)

Listing

The common stock of the company is listed on the New York Stock Exchange.
Ticker symbol: MGR

Annual Meeting

The annual meeting of stockholders will be held at 2 p.m. Central Daylight Time, Wednesday, April 28, 1971, at the Continental Illinois National Bank and Trust Company of Chicago, 231 S. LaSalle Street, Chicago, Illinois.

McGraw-Edison Company   333 West River Road   Elgin, Illinois 60120

Printed in the United States of America